

Confidential

Small Refiner Royalty-in-Kind Program October 28, 1999 Sale

Statistics:

- X - 4 barrels of Gulf of Mexico crude oil were offered for sale.
 - The majority of this oil was from leases in the following areas:

Area	Daily Royalty Share
Green Canyon	13,737
Ship Shoal	11,900
Eugene Island	10,811
Garden Banks	9,414
Main Pass	9,311
South Marsh Island	4,950
Vermilion	4,786
West Delta	4,387
Ewing Bank	1,619
South Timbalier	1,598
West Cameron	1,311

- X - 4 barrels of Offshore Pacific crude oil were offered for sale.
 - The majority of this oil was from leases in the following areas:

Area	Daily Royalty Share
Santa Ynez	14,196
Pt. Arguello	2,092
Beta	1,576
Pt. Pedernales	1,349
Carpinteria	1,213

- The main oil types offered were:

Oil Type	Daily Royalty Share
Eugene Island	27,213
Light Louisiana Sweet	24,608
Heavy Louisiana Sweet	17,853
Heavy California	16,553
MARS	8,475

Bid Process

- Fourteen refiners submitted applications:

American International Refinery, Inc.
Calumet Lubricants Company
Edgington Oil Company
Gary-Williams Energy
Kern Oil & Refining Company
Paramount Petroleum
San Joaquin Refining Co., Inc.

Calcasieu Refining Company
Dolphin Industries, Inc.
Frontier Oil
Huntway Refining Company
Oxnard Refinery
Placid Refining Company, LLC
U.S. Oil & Refining Co.

- Nine refiners submitted bids. The refiners who submitted applications but not bids were:

Refiner	Reason for not submitting bid
American International Refinery, Inc.	X ————— 4
Dolphin Industries, Inc.	
Edgington Oil Company	
Frontier Oil	
San Joaquin Refining Co., Inc.	X ————— 4

- ▲ bids for Gulf of Mexico crude were as follows:

	LLS - St. James	LLS - South Bend	HLS - Empire	EL - St. James	MARS - Clovelly	HLS - Grand Isle
Calcasieu	X	X	X	X	X	X
Calumet						
Gary-Williams						
Huntway						
Kern						
Oxnard						
Paramount						
Placid	4	4	4	4	4	4
U.S. Oil						

- Bids for Offshore California were as follows:

	CL-C	CL-M	CH-C	CH-R	H-H	H-A	H-Y	BTA	PTP	
Calcasieu	X								4	
Calumet										
Gary-Williams	X								4	
Huntway										
Kern	X								4	
Oxnard										
Paramount										
Placid										
U.S. Oil										

- Minimum acceptable bids were established as follows:

Oil type	Minimum acceptable bid
All Gulf of Mexico grades of crude	X 4
CL-M and CL-C	
CH-C and CH-R	
H-H, H-A, and H-Y	
BTA	
PTP	

The minimum acceptable bids were determined by management (Quality Steering Council) based on various factors including:

- X 4

X 4
- X 4
- X 4

- Based on the above, the only acceptable bids were the following for Offshore California:

Refiner	Bid	Oil Group	Fields	Location
Gary-Williams	X	X	X	X
Gary-Williams				
Paramount				
Gary-Williams				
Gary-Williams				
Paramount				
Huntway	4	4	4	4

Management (Lucy Q. plus others) was called on October 28, 1999, to discuss the results of the sale. RIK staff discussed the possibility of lowering the minimum bid threshold based on:

- a) X _____ 4
- b) X _____ 4
- c)
- d) X _____ 4

Management ruled that their established minimum thresholds will stand and we will hold another sale in the immediate future. Between now and the next sale, we should gather data to find out where the refiners concept of market prices differ from our concept of market prices.

Lease Selection

Gary-Williams had the first selection for H-H, H-A, and H-Y (Gary-Williams also had the second selection for H-Y) crude types and selected:

1) ~~X~~ _____ 4
2) ~~X~~ _____ 4
3) ~~X~~ _____ 4

Paramount had the second selection for H-A and the third selection for H-Y crude types and selected:

1) ~~X~~ _____ 4
2) ~~X~~ _____ 4
X _____ 4

Future

Another sale will be held in the near future. Data needs to be gathered before this sale to analyze why refiners bid below the minimum acceptable bid threshold established by the MMS. With this data, it is anticipated that a more successful sale can be held.

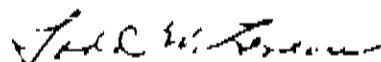
Recommendation

Based on the above, award contracts to Gary-Williams Energy and Paramount Petroleum.


Robert F. Prael
Chief, Royalty-in-Kind Section

11/8/99

Concur with above recommendation.



Todd W. Leneau
Contracting Officer
9 Nov 99